



# STATEWIDE ACCOUNTING BUREAU

June 1, 2020

## Lease Information Required for the 2020 Comprehensive Annual Financial Report (CAFR)

### Introduction

Agencies with leases must determine if the lease is classified as an operating lease or as a capital lease and provide the relevant information using this [shared excel document](#). This information is necessary for CAFR lease disclosures and fiscal year-end account balance entries. Criteria outlined below will assist agencies in determining their lease classification.

A recent GASB issuance has postponed the effective date of the new GASB Lease Statement (GASB 87). This was done as means of providing relief for governmental entities addressing the unforeseen burden of responding to COVID-19 challenges. As such, the State's implementation of GASB 87 will be postponed to fiscal year 2022. We continue to encourage agencies continue reviewing GASB 87 and all lease agreements in preparation of that change. Additionally, if they have not done so already, we also request state agencies and component units respond to previous requests for an inventory of leases that will be subject to the new standards. This will be an invaluable resource for designing policies and a system.

### Applicability

Lease information is required from all state agencies, except for component units. Lease information related to Component Units is obtained directly from their respective financial statements.

### Definitions

**Lease:** a contractual agreement between two parties that conveys to one party (lessee) the right to use specific property (real or personal), owned by the other party (lessor) for a specific period in return for stipulated, and generally periodic, cash payments (rents).

**Capital lease:** a lease that transfers substantially all the benefits and risks inherent in the ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability. If the lease meets any one of the following criteria, it is a capital lease:

1. By the end of the lease term, ownership of the leased property is transferred to the lessee.
2. The lease contains a bargain purchase option.

3. The lease term is substantially (75% or more) equal to the estimated useful life of the leased property.
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased property.

**Operating lease:** a lease that does not meet any one of the four criteria of a capital lease. Maintenance contracts are not considered operating leases.

## **Reminders**

### **For Kyocera Copiers Leased Through DOA Print and Mail Contract:**

- Kyocera Copiers: Agencies need to communicate leases for the Kyocera copiers rented from 360 Office Solutions through US Bank. These leases should be included on the operating lease schedule provided by agencies, as DOA Office of Finance and Budget will not be adding these to the DOA lease schedule. Please note that an amendment to the Print and Mail copier lease contract, signed in FY19, changed the lease administrator from US Bank to Hometown Leasing, LLC. Additionally, this amendment changed the structure of the leases making leases commenced under the new amendment capital leases rather than operating leases.

### **For capital leases recorded in modified accrual funds (i.e. governmental funds):**

- When recording capital lease inceptions, the lease acquisition should be recorded as an expenditure and as other financing source in the ACTUALS ledger. The required entries are detailed in MOM Policy 335 – Capital Assets (MOM 335).
- When the balances in both the ACTUALS and the ENTITYWIDE ledgers are combined for account 583300 (Inception of lease – nonbudgeted), the net must be zero before SABHRS closes each fiscal year-end.
- When the balances in both the ACTUALS and ENTITYWIDE ledgers are combined for all lease principal expenditure accounts, the net must be zero before SABHRS closes each fiscal year-end.

### **For capital leases recorded in full accrual funds (i.e. proprietary funds):**

- When all lease principal expense accounts are combined in the ACTUALS ledger, the net must be zero before SABHRS closes each fiscal year-end.

### **For all capital leases:**

- Before SABHRS closes each fiscal year-end, you must record the current portion of capital lease obligations in account 2124 (Lease obligation due within 1 year), with a corresponding adjustment in account 2104 (Lease obligation).
  - Modified accrual funds should post this entry in the ENTITYWIDE ledger.
  - Full accrual funds should post this entry in the ACTUALS ledger.
- The balance recorded in account 2124 should equal the amount of principal payments shown in your capital lease schedules for the upcoming fiscal year (2020). The balance recorded in account 2104 should equal the amount of principal payments shown in your capital lease schedules for all years beyond fiscal 2020.

The above reminders are not intended to be an all-inclusive list of the accounting entries

required to record lease transactions. Agencies should refer to MOM 335.

Any inconsistencies in the lease schedules should be reconciled before being submitted. If there is a reason these items do not balance, please inform us when providing the schedules.

### Lease Disclosure Requirements for CAFR

Lease disclosures are only required for leases with parties external to the State of Montana. If your agency leases equipment or buildings from another State agency (other than a component unit), please do not include that information on your lease schedules. Parties external to the State of Montana include component units as follows:

- University of Montana – all funds under business units 35140, 51030, 51050, 51080, 51110, 51120
- Montana State University – all funds under business units 35130, 51040, 51060, 51070, 51090, 51100, 51190
- Montana Board of Housing – funds 03110, 03282, 03945, 06030, 06031, 06032, 06078, 06079 under business unit 65010
- Facility Finance Authority – funds 06012, 06015 under business unit 65010
- Montana State Fund – all funds under business unit 62030
- Public Employees' Retirement System – all funds under business unit 61040
- Teachers' Retirement System – all funds under business unit 61050

Using the information in the definitions section above, determine the classification of the leases. Complete the capital lease schedule, operating lease schedule, or both, as applicable. **Agencies with no lease activity or balances to report should document that fact on the lead tab of the lease document. ALL BLANK fields for each Business Unit on the lead sheet will receive follow up communication from the Statewide Accounting Bureau (SAB).**

To assist you in preparing the required lease information, we have prepared the 2020 Lease Schedule template (excel document) shared on the [OneDrive](#). Complete this online version **ONLY** (excel document) rather than preparing your own, as it has been designed to collect all necessary information and to detect data entry errors. **The OneDrive lease excel file for the 2020 Lease Schedules must be finalized on or before July 17, 2020.** Lease schedules data field information is detailed below.

### Capital Lease Schedule – Active Leases

Description – Describe the item leased. Be specific.

Asset ID – If they meet the asset capitalization threshold, capital assets acquired by capital lease/installment purchase must be recorded in Asset Management (AM) at the inception date of the agreement. Include the asset number for each capital lease/installment purchase. If the agency records property on Asset Management in summary total only, enter that AM summary total property number.

If the capital asset does not meet the capitalization threshold, "Expensed" should be indicated here. All entries (other than depreciation) must still be completed for these leases.

Building or Equipment – This must be disclosed for CAFR reporting purposes.

Fund – Indicate the fund(s) from which lease payments are made. If more than one fund is used, please show the allocation among the funds. For lengthy allocations, please contact SAB (Brian Feller) for guidance.

Historical Cost – The cost of the asset (should always match what was recorded on AM).

Accumulated Depreciation – The amount of depreciation which has been accumulated as of fiscal year-end. This can be found by going to: Asset Management > Depreciation > Review Depreciation Info > Asset Depreciation, then go to the Depreciation tab. From here select Fiscal Year 2020 and Period 12. Click the Calculate NBV button and the accumulated depreciation amount will be shown on the left. If the asset did not meet the capitalization threshold and is not being depreciated, then the entire amount of the asset should be entered here.

Inception Date – Indicate the date the lease agreement began.

Expiration Date – Indicate the date the lease agreement expires (should coincide with the lease schedule column date).

Future Minimum Payments for Principal & Interest – Report anticipated future principal and interest payments for each of the next five fiscal years (2021 through 2025) and then in five-year increments for lease agreements extending beyond fiscal 2025.

Total Principal – Totals the principal columns. For year 2020, this should equal the total reported on SABHRS in account 2124. For years beyond 2020, this should equal the total reported on SABHRS in account 2104.

Total Interest – Totals the interest columns.

FY2020 Principal Payments – Total the portion of payments made in the year related to reduction of the principal balance of the lease obligation. This should equal the total recorded in budgeted lease principal expense accounts in the ACTUALS ledger.

### **Capital Lease Schedule – Completed Leases**

We are asking for agencies to list all assets acquired through capital lease even though the lease has expired. This listing should include all such assets, even if the asset has been fully depreciated.

Description – Describe the item leased. Be specific.

Asset ID – If the lease had met the asset capitalization threshold, enter the asset ID. If the lease did not meet the capitalization threshold, then indicate, "Expensed."

Building or Equipment – This must be disclosed for CAFR reporting purposes.

Fund – Indicate the fund(s) from which lease payments are made. If more than one fund is used, please show the allocation among the funds. For lengthy allocations, please contact SAB (Brian Feller) for guidance.

Historical Cost – The cost of the asset (should always match what was recorded on AM).

Accumulated Depreciation – The amount of depreciation which has been accumulated as of fiscal year-end.

### **Operating Lease Schedule**

Description – For building leases, include the building name, address and city. Include a description of the item for other operating leases.

**Fund** – Indicate the fund from which the lease payments are made. If more than one fund is used, please show the allocation among the funds. For lengthy allocations, please contact SAB (Brian Feller) for guidance.

**Inception Date** – Indicate the date the parties signed the lease agreement.

**Expiration Date** – Indicate the date the lease agreement expires. This date should coincide with the lease schedule column date.

**Future Minimum Payments** – Report anticipated future lease payments for each of the next five fiscal years (2021 through 2025) and then in five-year increments for lease agreements extending beyond fiscal 2025. The future lease payments include only the operating lease amounts for succeeding fiscal years and no other future costs.

**Total** – Total of the payments columns.

**FY2020 Payments** – Total of the rental expenditures paid during the year for all operating leases. Do not include any other costs paid such as maintenance costs and property taxes.

## Closing

Thank you for your assistance in preparing the requested information. It is much easier to make an adjustment in Asset Management prior to fiscal-year-end close so it's important to review and ensure your SABHRS balances are accurate. The sooner these schedules can be completed and returned, the better. If you have any questions, please don't hesitate to contact Brian Feller at 444-3975.

### MONTANA DEPARTMENT OF ADMINISTRATION

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